



JTPA

Number: D96-10

Serving the People of California

DIRECTIVE

Date: September 20, 1996
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TO: SERVICE DELIVERY AREA ADMINISTRATORS
PRIVATE INDUSTRY COUNCIL CHAIRPERSONS
JTPD PROGRAM OPERATORS
EDD JOB SERVICE OFFICE MANAGERS
JTPD STAFF

SUBJECT: PROTOCOLS AND GUIDELINES FOR SPECIAL AUDITS

EXECUTIVE SUMMARY:

Purpose:

The purpose of this Directive is to establish protocols and guidelines for special audits conducted by state auditors.

Scope:

The information in this Directive applies to all special audits conducted by the Employment Development Department (EDD).

Effective Date:

The effective date of this Directive is date of issuance.

REFERENCES:

- JTPA 164
- 20 CFR 627.475

STATE IMPOSED REQUIREMENTS:

This document contains state imposed requirements. These requirements are in ***bold, italic*** print.

FILING INSTRUCTIONS:

This Directive supersedes Interim Directive 94-04 Rev. 1. Retain this Directive until further notice.

BACKGROUND:

These protocols are intended to promote clarity of communications, efficiency in completing audits, and a greater understanding, by all parties involved, of the procedures used in conducting special fiscal and performance audits by EDD's Audit and Evaluation Division. The protocols included in this Directive incorporate ideas, suggestions, and comments from Service Delivery Areas (SDA), and reflect the state's commitment to more effective oversight of the Job Training Partnership Act (JTPA) program. They apply to the conduct of fiscal and performance audits of SDAs conducted according to Government Auditing Standards promulgated by the United States General Accounting Office. However, these protocols do not apply to investigations performed by EDD's Investigation Division or when audits are undertaken by entities external to EDD. Nor do they apply when, during the course of an audit, the auditor discovers instances of fraud or abuse. In such instances, JTPA Directive 91-2, REPORTING FRAUD AND ABUSE, June 28, 1991, and Government Auditing Standards will apply.

POLICY AND PROCEDURES:

I. Notice of Selection for Audit

- A. Special audits may result from issues contained in incident reports or from discrepancies reported during monitoring reviews or other audits, such as the single audit. They may also be performed in response to questions or other issues raised by the Director of EDD.***
- B. The SDAs selected for special audit will be notified in writing of their selection as soon as practicable. The Job Training Partnership Division (JTPD) will also be notified of SDAs being selected for special audits. If an SDA is notified directly of an audit by someone other than a state auditor, the SDA should inform the Deputy Director of the EDD's Program Review Branch immediately.***
- C. Auditors will contact SDAs selected for special audits to establish a date for an entrance conference as soon as practicable but, generally, at least 10 working days in advance of the visit. The auditors will provide the SDAs with a general statement as to the scope and objectives of the audit as well as the kinds of records and systems to be audited. However, to ensure that audits are performed in accordance with Government Auditing Standards, auditors will not provide SDAs with the detailed audit program.***
- D. Written notification of special audits will include a statement as to whether subcontractor or employer visits will be required and what kinds of files and sample documentation will be needed from the subcontractors. Notification will also include the anticipated length of the visit and the anticipated number of auditors that will be present to conduct the audit.***

II. Entrance Conferences

The lead auditor will participate in an entrance conference with the SDA Director or their designee. The entrance conference will accomplish the following:

- The lead auditor will provide information on the names of all auditors who will be onsite, a description of the scope of the audit, notification of which subrecipients will be visited, and the expected timelines for the audit.*
- The SDA Director will designate staff responsible for the selected audit areas to act as contact persons for the auditors.*
- The SDA will inform subrecipients of planned audits and will make appointments with subrecipients upon request of the lead auditor.*
- The lead auditor will establish a schedule of appointments for SDA staff interviews. The lead auditor will select SDA staff to be interviewed and will permit an available supervisor to be present during any interview, provided that it is appropriate.*

III. Onsite Audit Process

- A. To the extent possible, the auditor will secure and review documents such as reports of previous audits, single audit reports, and monitoring reports for prior findings and completed corrective actions before starting fieldwork at the SDA.*
- B. Throughout the course of all special audits, the auditor will provide the SDA with informal briefings on findings that may appear in the audit report. The auditor will provide an informal exit conference for the SDA when the fieldwork is complete.*
- C. No original documents may be removed from the SDA offices or subrecipient offices unless approved by the SDA Director or by legal authorization. However, the auditor may obtain copies of original documents for purposes of any review.*

IV. Audit Report - Draft Stage

- A. The auditor will issue a draft report within 45 working days of the conclusion of the fieldwork. (During audits of the JTPD where auditors have included onsite reviews of SDAs, the SDA directors will be provided a draft of the findings and recommendations specifically pertaining only to their SDAs.) The draft report will contain the following elements:*
 - 1. A table of contents page indexing the various sections of the report.*
 - 2. An introduction section which provides the reader with background information.*

3. *A scope and methodology section indicating the purpose of the audit and its extent and limitations. It will also contain a description of the scope of the audit and the methodology used to conduct the audit, including the techniques used to analyze the data and the types and sizes of samples reviewed.*
 4. *A conclusion paragraph summarizing the auditor's overall assessment of the adequacy of the programs reviewed including positive and negative assurances and, if applicable, an opinion as to the accuracy of the financial statements.*
 5. *A discussion of the findings and recommendations, including the standards and criteria against which the audited portion of the program was measured, a description of the problem, a description of the effect of the problem, and, if applicable, a description of what caused the problem.*
 6. *A list of relevant accomplishments or corrective actions taken and issues resolved by the management of the program, as verified by the auditors prior to the conclusion of the fieldwork.*
 7. *Any attachments pertinent to the report.*
- B. *Accompanying the draft report will be a request for a response by the SDA within 20 working days of receipt of the draft report and an offer for a formal exit conference to be held within the 20-day response period. The SDA should notify the Audit and Evaluation Division within 5 working days of receiving the draft report, whether a formal exit conference is desired. The SDA's response should include actions that it will take to resolve the findings and implement the recommendations.***
- C. *The auditor will provide a copy of the draft audit report to the Chief of JTPD at the time the report is forwarded to the SDA. The Chief of JTPD will ensure that JTPD's Program Managers are assigned to assist the SDA in developing corrective action to resolve any finding.***

V. Exit Conferences for Special Audits

- A. *During the 20 working day period provided for SDAs to respond to draft audit reports, a formal exit conference will be held with the SDA Director or their designee, if requested, to discuss the findings and recommendations in the draft report. Among the items covered during the exit conference will be the following:***
1. *The purpose, scope, and objectives of the audit.*
 2. *The audit findings, including any amounts questioned or recommended for disallowance, and recommendations to resolve the findings.*
 3. *Actions taken by the auditee to address audit findings.*

- 4. The process and timelines for issuance of the final report.**
 - 5. The audit resolution process and timelines.**
 - 6. The audit follow-up process to be used by the auditor to track the auditee's progress in implementing the report's recommendations.**
- B. If, after the exit conference, the auditor adds additional findings affecting the SDA or substantially revises any finding, the auditor will notify the SDA Director and the Chief of JTPD before the publication of the final report. If the additional findings or revisions are significant in the judgment of the SDA Director, they can request a second exit conference to discuss the new or revised findings.**

VI. SDA's Response to the Draft Audit Report

The SDA's response to the draft audit report may include:

A statement agreeing or disagreeing with the auditor's statements that led to the findings.

- The SDA's proposed corrective action(s) to resolve the cited findings, including the identification of the major tasks involved and the timeliness for their implementation.**
- A statement describing issues unresolved by the SDA and the auditors at the time the draft report was issued.**
- The SDA's interpretation of any issue and any additional information which may help resolve the findings.**

VII. Final Report

- A. After receipt and consideration of the SDA's response, the auditor will issue a final report containing those elements noted in IV Audit Report - Draft Stage part A above.**
- B. The auditor will issue the final report within 15 working days of receipt of the SDA's response to the draft report and will include the SDA's response in the final report. The auditor may also provide, in a separate section of the final report, any comments the auditor may have regarding the SDA's response.**
- C. The auditor will provide a copy of the final report to the Chief of JTPD at the time the report is forwarded to the SDA.**

VIII. Resolution of Audit Findings

- A. Staff of JTPD will work with the SDA to secure acceptable corrective action for each finding.**
- B. Within 20 working days of receipt of the final audit report, the SDA must submit to the EDD's Audit and Evaluation Division a Corrective Action Plan (CAP) describing all major tasks or activities that are planned to correct problems. The CAP must include appropriate schedules for implementation of the corrective action. If the auditor determines that the CAP adequately resolves the findings, the auditor will, within 15 working days of receipt of the CAP, respond to the SDA indicating that the CAP is acceptable.**
- C. If the CAP is unchanged from the draft report response, the SDA will advise the auditor, in writing, that no change was necessary. If a CAP is not received by the auditor within 20 working days after receipt of the final report by the SDA, or, if the audit manager determines that the CAP does not appear to adequately address outstanding findings in a timely manner, the audit manager will notify the SDA Director and the Chief of JTPD. If there is no appropriate action within the next 10 working days, the Chief of EDD's Audit and Evaluation Division will notify the SDA Director of the concern.**

If no CAP has been received (or has been received but is not complete) after an additional 10 working days have elapsed, the Deputy Director of EDD's Program Review Branch will notify the Private Industry Council (PIC) Chair in writing of these circumstances and will request immediate action. If appropriate action is not taken within the next 10 working days, the Director of EDD will notify the Chief Elected Official responsible for the SDA and PIC operations that an approved CAP has not been submitted.

- D. The audit manager or the SDA may initiate a request for JTPD to negotiate a resolution of any finding involving questioned or disallowed costs. Informal resolution will involve accepted audit resolution procedures that include:**
 - 1. Identifying and clarifying all pertinent issues related to a specific finding.**
 - 2. Identifying acceptable records or documentation required.**
 - 3. Negotiating noncash settlements for payment where permissible.**
 - 4. Negotiating an incremental payment schedule if cash payments are required.**

E. Formal resolution of special audit findings will follow existing policies. Cash reimbursements will be processed within normal EDD procedures for JTPA debt collection.

IX. Audit Follow-up Process

Accompanying the final audit report will be a request that the SDA provide periodic updates on the progress they make toward implementing the corrective actions. The SDA will respond after three months of receipt of the final audit report, as well as after six months and after one year, noting the progress made to implement the findings. The Audit and Evaluation Division will evaluate the responses and respond, in writing within 10 working days, to the SDA if the corrective actions do not comply with the recommendations stated in the final report.

ACTION:

The actions specified by this Directive shall be followed by the organizations and individuals specified herein, and is effective immediately.

INQUIRIES:

Please address questions about this Directive to your assigned JTPD Program Manager.

/S/ VICKI J. JOHNSRUD
Acting Chief